



<b>REPORT OF:</b>	HEAD OF FINANCE (CFO)
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<b>TO:</b>	EXECUTIVE
<b>DATE:</b>	14 SEPTEMBER 2017
<b>EXECUTIVE MEMBER:</b>	COUNCILLOR T SCHOFIELD

<b>KEY DECISION REQUIRED:</b>	NO
<b>WARD (S) AFFECTED:</b>	ALL

<b>SUBJECT:</b>	<b>REPORT FROM THE EXTERNAL AUDITORS (ISA 260 REPORT)</b>
<b>RECOMMENDATIONS:</b>	
<p>(i) That the report on the 2016/17 audit is noted.</p> <p>(ii) The Management Representation Letter is agreed.</p>	
<b>REASONS FOR RECOMMENDATIONS:</b>	
<p>The Executive is responsible for corporate governance. How we utilise and account for resources is intrinsic to good governance.</p>	
<b>EXECUTIVE SUMMARY:</b>	
<p>The report from the Council's external auditors (KPMG) summarises the conclusions and significant issues arising from the audit of the 2016/17 Annual Financial Report. This report is attached at <b>Annex 1</b>.</p> <p>The agreement of the Management Representation Letter is part of the standard audit process. This letter is set out in <b>Annex 2</b>.</p>	

<b>Executive has authority to approve the above recommendations.</b>
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## STATUTORY POWERS

1. The Council is required to produce an annual Statement of Accounts by the *Local Government and Housing Act 1989* and the *Accounts and Audit Regulations 2011*.
2. The *International Standard on Auditing 260* ("ISA 260 - Communication of audit matters to those charged with governance") provides standards and guidance on the communication of audit matters between the auditor and those charged with governance.

3. Under the Council's Constitution this function has been delegated to the Executive.

### **ISSUES**

4. The External Auditors are required to issue the Council with an ISA 260 report following the completion of the work they have done on auditing the Council's 2016/17 Statement of Accounts.
5. The report is attached as Annex 1. In particular, Member's attention is drawn to the auditors "headlines" set out in Section One 'Summary – Financial Statements audit' of their report.

### **LEGAL IMPLICATIONS**

6. There are no legal implications.

### **FINANCIAL IMPLICATIONS**

7. There are no direct financial implications.

### **EQUALITIES IMPLICATIONS**

8. There are no equalities implications.

### **COMMUNICATIONS IMPLICATIONS**

9. There are no communications implications.

### **CONSULTATION**

10. The Executive Member for Finance was consulted during the preparation of this report.

### **POLICY FRAMEWORK**

11. There are no policy issues to raise as part of this report.

**Background Papers:** Executive, 14 September 2017, *Statement of Accounts 2016/17*



# External Audit Report 2016/17

**Reigate and Banstead Borough Council**

—

14 September 2017

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This report is addressed to Reigate and Banstead Borough Council (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Jo Lees, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (0207 694 8981, [andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to Reigate and Banstead Borough Council (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

**Basis of preparation:** We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

**Purpose of this report:** This Report is made to the Authority's Audit and Standards Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

**Limitations on work performed:** This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

**Status of our audit:** Our audit is substantially complete. We will provide an oral update on the status of our audit at the Executive Committee meeting. The following work is ongoing:

- Review and closedown procedures
- Receipt of the letter of assurance from the auditors of Surrey County Council Pension Fund for assurance over processing at the Fund
- Casting of the financial statements and receipt of the Management Representation Letter

### Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements for the deadline of 30 September 2017, following the Executive Committee adopting them and receipt of the management representations letter.

We have completed our audit of the financial statements. We have also read the narrative report and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There are no unadjusted audit differences.
- There are 14 significant adjusted audit differences, covering both ledger and disclosure amendments, which is a higher number of audit adjustments than in previous years. Of these 14 adjustments, 10 impact the prime financial statements. The errors identified primarily relate to the areas of cash, income and expenditure, creditors and other land and buildings. Further details are given in appendix 3.
- We agreed presentational changes to the accounts with the Finance Team, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
- In addition to our routine requests we are asking for management representations over the following, which are explained in section 2:
  - Valuation of land and buildings and investment properties;
  - Valuation of pension liabilities;
  - Completeness and accuracy of s106 income and expenditure; and
  - Accruing for and cut off of expenditure transactions
- We will report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.
- We reviewed the narrative report and have no matters to raise with you.
- We did not receive any queries or objections from local electors this year.

We are now in the completion stage of the audit and anticipate issuing our completion certificate by 30 September 2017. We also intend to issue our 2016/17 Annual Audit Letter in October 2017.

### Value for money – see section 3 for further details

Based on the findings of our work, we have concluded that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion for the deadline of 30 September 2017.

## Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions / objections, opening balances, etc.).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/17 financial statements.

We raised 3 recommendations in our ISA 260 report in 2015/16. Of these, we are satisfied that the Authority has implemented 1 recommendation. The remaining 2 recommendations relate to areas where errors or control weaknesses were identified in 2016/17 also, and hence we have raised new recommendations in response to these this year. We have made 4 new recommendations as a result of our 2016/17 work. These recommendations relate to:

- The controls in relation to the Authority's bank reconciliation: Our interim audit in March 2017 identified that in year bank reconciliation controls did not always operate effectively, and our year end audit identified 3 audit adjustments as a result of incorrectly recorded cash transactions.
- The Authority's processes for accruing for expenditure transactions and ensuring they are recorded in the correct accounting period: Our audit testing identified two items which were erroneously over accrued for, and 3 further items for which a greater value was accrued than was ultimately required to settle the transaction. Our audit testing also identified a transaction which related to 2016/17 but which had not been recorded in the draft financial statements, because the invoice was received post year end.
- The control arrangements in place for the Council Tax to General Ledger reconciliation: Our audit testing identified that not all weekly reconciliations are signed off as reviewed by Management.
- The procedures in place for processing transactions and ensuring they are recorded appropriately. Our audit testing identified one journal which was erroneously misrecorded as uncertainty existed over what it related to.

All recommendations are shown in appendix 1.

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is summarised below:

- BEN01 Housing Benefits certification: audit fieldwork is currently in progress and is on track to be completed in advance of the PSAA deadline of 30 November 2017.

The fees for this work is explained in section two.

We audit your financial statements by undertaking the following:

Work Performed	Accounts production stage		
	Before	During	After
<b>1. Business understanding:</b> review your operations	✓	✓	–
<b>2. Controls:</b> assess the control framework	✓	–	–
<b>3. Prepared by Client Request (PBC):</b> issue our prepared by client request	✓	–	–
<b>4. Accounting standards:</b> agree the impact of any new accounting standards	✓	✓	–
<b>5. Accounts production:</b> review the accounts production process	✓	✓	✓
<b>6. Testing:</b> test and confirm material or significant balances and disclosures	–	✓	✓
<b>7. Representations and opinions:</b> seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2016/17 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that all the financial controls on which we seek to place reliance are operating effectively, with the exception of the bank reconciliation. We have raised a recommendation regarding this in Appendix 1. We believe that this recommendation will strengthen your control environment. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Finance Manager and this was issued as a final document to the Finance Team.



<p>4. Accounting standards</p>	<p>We work with you to understand changes to accounting standards and other technical issues. For 2016/17 these changes related to:</p> <ul style="list-style-type: none"> <li>• Updates to the presentation of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement and the introduction of the new Expenditure and Funding Analysis; and</li> <li>• Amended guidance on the Annual Governance Statement.</li> </ul> <p>The changes required were appropriately reflected by the Authority in the draft financial statements, and we have no matters to raise with regard to these items.</p>
<p>5. Accounts Production</p>	<p>We received complete draft accounts by 30 June 2017 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.</p> <p>We will debrief with the Finance Team to share views on the final accounts audit which hopefully will lead to further efficiencies in the 2017/18 audit process. In 2017/18 the external audit opinion deadline will come forward to 31 July (previously 30 September), therefore the Authority should also review its closedown and audit process to ensure enhancements can be made next year.</p>
<p>6. Testing</p>	<p>We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. During the audit we identified 14 significant audit adjustments, relating primarily to the areas of cash, income and expenditure, creditors and other land and buildings. Of these 14 adjustments, 10 impact the prime financial statements. We also identified a small number of presentational issues which have been amended by the Finance Team.</p>
<p>7. Representations</p>	<p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Director of Finance on 25 August 2017. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking Management to provide specific representations regarding:</p> <ul style="list-style-type: none"> <li>• The Executive is satisfied that the valuation of land and buildings and investment properties in the financial statements is appropriate;</li> <li>• The Executive is satisfied that the valuation of pension liabilities recorded in the financial statements is appropriate;</li> <li>• The Executive is satisfied that all s106 schemes have been identified and reported correctly with the Authority as either the agent or principle of the transaction in each case; and</li> <li>• The Executive is satisfied that expenditure transactions are recorded in the appropriate accounts period and accrued for where appropriate.</li> </ul>

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with Management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, opening balances, public interest reporting, questions/objections, etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/17 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over the valuation of land and buildings and investment properties and pension liabilities which were identified as significant risks within our audit plan and which will form a part of our audit opinion;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

SIGNIFICANT audit risk	Account balances affected	Summary of findings
Valuation of land and buildings and investment properties	Land and buildings: £109.4m (2015/16: £99.3m)  Investment properties: £47.1m (2015/16: £36.0m)	We have undertaken the following work over the valuation of land and buildings and investment properties: <ul style="list-style-type: none"> <li>• We reviewed the revaluation basis and considered its appropriateness. We engaged KPMG’s valuation experts to undertake an assessment of the valuation.</li> <li>• We considered the independence and experience of Wilkes, Head and Eve and were satisfied that the valuer was appropriately qualified to complete the valuation.</li> <li>• We assessed the basis upon which any impairments to land and buildings have been calculated and tested the associated assumptions.</li> <li>• We confirmed that the valuation was conducted in accordance with RICS principles, and in line with the instructions provided to the valuer, and the Authority’s accounting policies.</li> <li>• We reviewed the data provided to the valuer by the Authority for the purposes of the valuation and confirmed its completeness and accuracy with reference to the Fixed Assets Register.</li> <li>• We confirmed that the accounting entries resulting from the valuation have been correctly reflected in the financial statements.</li> </ul> There are no matters to report to you in respect of the above.
Valuation of pension liabilities	Pensions liability: £70.5m (2015/16: £57.0m)	We have undertaken the following work over the valuation of pension liabilities: <ul style="list-style-type: none"> <li>• We considered the assumptions used by the actuary in the valuation, and engaged KPMG’s actuarial experts to undertake an assessment of these assumptions.</li> <li>• We confirmed that the accounting entries resulting from the valuation have been correctly reflected in the financial statements.</li> <li>• We considered the independence and experience of Hymans Robertson LLP and were satisfied that the actuary was appropriately qualified to complete the valuation.</li> <li>• We reviewed the data provided to Surrey County Council Pension Fund, as the administering authority, for the purposes of the valuation, and confirmed its completeness and accuracy.</li> <li>• We receive confirmation from the auditors of Surrey County Council Pension Fund that there are no matters they wish to bring to our attention. [Outstanding]</li> </ul> There are no matters to report to you in respect of the above.

## Other areas of audit focus

We identified 2 other areas of audit focus. These are not considered to be significant risks as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we carry out audit procedures to ensure that there is no material misstatement.

Other areas of audit focus	Account balances affected	Summary of findings
Disclosures associated with retrospective restatement of CIES, EFA and MiRS	CIES, EFA and MiRS	<p>We have undertaken the following work over the disclosures associated with the retrospective restatement of CIES, EFA and MiRS:</p> <ul style="list-style-type: none"> <li>We reviewed the disclosures reported by the Authority to ensure they were presented in line with the <i>Code of Practice on Local Authority Accounting 2016/17</i>.</li> <li>We reconciled the disclosures in the EFA and MiRS to the CIES, from where detailed transactional testing was undertaken.</li> <li>We reviewed the Authority's Net Cost of Services categories reported in the CIES, to ensure they reflect the Authority's operational divisions and the reporting lines upon which the Authority reports internally.</li> </ul> <p>There are no matters to report to you in respect of the above.</p>
Preparation of group financial statements	Group Accounts	<p>We have undertaken the following work over the Authority's Group financial statements:</p> <ul style="list-style-type: none"> <li>We reviewed the Authority's assessment to consolidate its subsidiaries to ensure this basis is appropriate for the financial statements in 2016/17.</li> <li>We reviewed the group accounts disclosures reported by the Authority to ensure they were presented in line with the <i>Code of Practice on Local Authority Accounting 2016/17</i>.</li> <li>We reviewed the group consolidation to ensure that the appropriate subsidiaries had been consolidated and that significant accounting policies aligned.</li> <li>We tested a sample of significant consolidation adjustments to ensure they had been accounted for correctly and eliminated as appropriate upon consolidation.</li> </ul> <p>There are no matters to report to you in respect of the above.</p>

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
<p>Fraud risk from revenue recognition</p>	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>In our External Audit Plan 2016/17 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.</p>	<p>In our External Audit Plan 2016/17 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.</p> <p>This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.</p>
<p>Fraud risk from management override of controls</p>	<p>Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk.</p> <p>In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>There are no matters arising from this work that we need to bring to your attention.</p>

## Group audit

The Authority has three subsidiaries in 2016/17, of which one is material to the group, and hence was scoped in for group reporting purposes. The subsidiaries are audited by KPMG. The Authority's material subsidiary is:

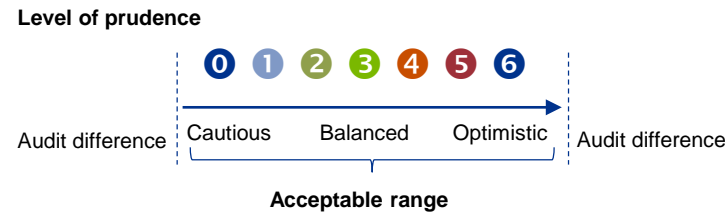
- Greensand Holding LLP

The Authority has two further subsidiaries; Pathway for Care Limited and Horley Business Park Development LLP. Neither of these are material, however the Authority has determined to consolidate these to give information and clarity to users of the accounts.

There are no specific matters to report pertaining to the group audit, and there were no issues to note in relation to the consolidation process.

## Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:



Assessment of subjective areas				
Asset / liability class	Current year	Prior year	Balance (£m)	KPMG comment
Pension liability	3	3	£70.5m (PY:£57.0m)	<p>During the year, the Local Government Pension Scheme for Surrey County Council (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The pension liability numbers to be included in the financial statements for 2016/17 are based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>Our procedures here focussed on ensuring that the information provided to Surrey County Council Pension Fund were complete and accurate, and ensuring that the assumptions applied by the expert actuary Hymans Robertson were appropriate. We utilised KPMG's expert actuary to review the pensions valuation and the assumptions incorporated within it.</p> <p>From our work we have reasonable assurance that the judgements made in the valuation of pensions are appropriate.</p>

Assessment of subjective areas				
Asset / liability class	Current year	Prior year	Balance (£m)	KPMG comment
Land and buildings	3	3	Land and buildings: £109.4m (£99.3.0m)  Investment properties: £47.1m (2015/16: £36.0m)	<p>The Authority utilise an external valuer, Wilkes, Head and Eve (WHE), to value their land, buildings and investment properties. All land and buildings are measured initially at cost, representing the cost directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended. All assets are subsequently measured at fair value, as part of a rolling revaluation programme which ensures that all assets are revalued within a 5 year period.</p> <p>Land and buildings are valued at fair value, determined as the amount that would be paid for the asset in its existing use (existing use – EUV). These methods are in line with the <i>Code of Practice on Local Authority Accounting 2016/17</i> and the RICS Red Book. Investment properties are valued initially at cost, and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm’s-length. This valuation basis is in line with the <i>Code of Practice on Local Authority Accounting 2016/17</i> and the RICS Red Book. Our audit work has included a detailed consideration of the valuation basis used and review of the WHE valuation reports by KPMG’s expert valuer.</p> <p>From our work we have reasonable assurance that the judgements made in the valuation of land, buildings and investment properties are appropriate to ensure revaluations and impairments which are materially accurate.</p>
Debtors provisioning	3	3	£2.2m (PY:£1.9m)	<p>The Authority has recorded a provision for impairment of receivables of £2.2m for 2016/17 (£1.9m in 2015/16). Of this, the largest individual amount relates to Housing Benefits overpayment provisions, which are provided for based on 5% of those debts under 1 year old, and 100% of debts over one year old, which is consistent with the prior year. Other than Housing Benefits, other debtors provisions are maintained for Council Tax and NNDR debts, which have been maintained at consistent levels in 2016/17 as in previous years.</p> <p>Our procedures here have focussed on sample testing of individual bad debt provisions, as well as a variance analysis to ensure completeness, and enquiries of Management.</p> <p>From our work we have reasonable assurance that the judgements made in the valuation of debtors provisions are appropriate to ensure provisions held are materially accurate.</p>

Assessment of subjective areas				
Asset / liability class	Current year	Prior year	Balance (£m)	KPMG comment
Creditor accruals	2	3	£3.7m (PY:£3.2m)	<p>The Authority recorded creditor accruals of £3.7m for 2016/17 (£3.2m in 2015/16). In most cases, the Authority will make significant judgements when calculating estimates for accruals, as information about actual amounts owed were not available at 31 March 2017. Accruals are based on estimates and judgements of historical trends and anticipated outcomes. At the end of each accounting period, Management reviews outstanding items and estimates amounts to be accrued. Any variation between the estimate and the actual is recorded under the relevant heading in the accounts in the subsequent financial period.</p> <p>Our procedures focussed on considering the nature of accruals, selected on a sample basis, and whether the Authority has calculated the accrual using relevant supporting documentation and reasonable assumptions. In addition we have undertaken a retrospective review of accruals made in 2015/16 and agreed them to subsequent cash payments in 2016/17, to support the accuracy of methodologies to accrue expenditure.</p> <p>Our audit testing identified two accruals totalling £674k, made up of one item of £646k, and a second item of £28k, which were erroneously over accrued. These both related to a specific capital project where automatic accruals are raised, and once invoices were received for works completed, it was identified that invoices had not been matched off against the correct corresponding accruals, resulting in a residual over accrual of £673k.</p> <p>Moreover, we note that of the other 3 items tested in this sample, the variance between the value of the accrual recorded and the amount invoiced is 16% (a variance of £23.6k out of a total recorded in the accounts of £144.7m).</p> <p>The residual untested balance within automated accruals is £423.5k, and of this, only £176k is above the Authority's £5k accruals de minimus level. As the items above are overaccrued (rather than underaccrued) we are therefore satisfied that it is sufficiently improbable that there would be a material error in this untested balance. Moreover, we undertook extended testing over the wider accruals balance and identified no further errors. Therefore we are satisfied that the Authority's creditor accruals are materially appropriate, however have rated the approach here as more cautious than in the prior year.</p> <p>The £674k over accrual is an audit adjustment detailed in Appendix 3, and we have raised a recommendation regarding the Authority's accruals process in Appendix 1.</p>



## **Narrative report of the Authority**

We have reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

## **Queries from local electors**

We did not receive any questions or objections from members of the public this year.

## **Audit certificate**

We have completed all our responsibilities in relation to the audit of the accounts for the year end 31 March 2017 and anticipate issuing our audit certificate with our audit opinion by 30 September 2017.

## **Other grants and claims work**

We undertake other grants and claims work for the Authority. The status of our grants and claim work is presented below:

- BEN01 Housing Benefits certification: audit fieldwork is currently in progress and is on track to be completed in advance of the PSAA deadline of 30 November 2017.

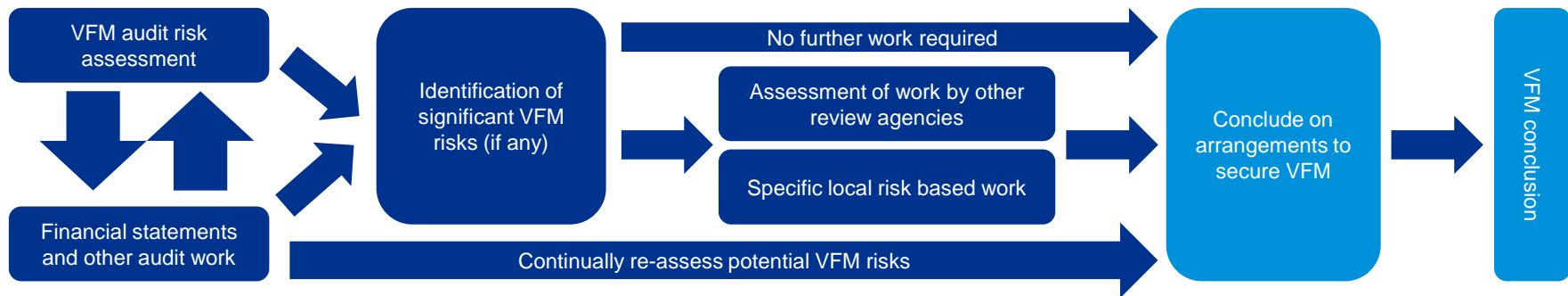
## **Audit fees**

Our fee for the audit was £48,812 excluding VAT (£48,812 excluding VAT in 2015/16). This fee was in line with that highlighted in our audit plan approved by the Executive Committee.

Our work on the certification of Housing Benefits (BEN01) is not yet complete. The planned scale fee for this is £12,079 excluding VAT (£9,768 excluding VAT in 2015/16).

During 2016/17 KPMG also provided non audit fee services totalling £11,100 excluding VAT. Of this, £2,600 was for the provision of a tax helpline; £1,500 was in relation to VAT advice provided for a property acquisition, and £7,000 was in relation to an HMRC appeal with regards to off street parking. Full details are provided in Appendix 4.

For 2016/17 our value for money (VFM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We did not identify any significant VFM risks in 2016/17. During the year, we identified one area of audit focus and provide a summary below of our work in this area. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.



**Other areas of audit focus**

Below we set out the detailed findings against other areas of audit focus for our VFM work.

VFM: other area of audit focus	Our audit response and findings
Commercial partners	<p>The Authority has entered into a series of commercial arrangements during 2016/17. These are designed to generate greater commercial revenues for the Authority, designed to mitigate the impact of reducing central government funding, and to support the Authority's 2020 strategy, whereby it aims to be grant free by 2020. Three subsidiaries have been created to facilitate this; Greensand Holding LLP; Pathway for Care Limited and Horley Business Park Development LLP. The Authority has also entered into an inter authority agreement called Southern Building Control Partnership, working in conjunction with Tandridge and Mole Valley district councils, though this arrangement is not a separate legal entity.</p> <p>We have reviewed the governance process that the Authority has undertaken to scope and create its subsidiaries with its commercial partners, to ensure that the Authority has undertaken sufficient due diligence in entering into each partnership arrangement.</p> <p>We have no matters to report in respect of the above work.</p>

# Recommendations raised and followed up

Recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations			
<b>1</b>	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	<b>2</b>	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
<b>3</b>	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.		

#	Risk	Recommendation	Management Response / Officer / Due Date
<b>Financial statements</b>			
1	<b>2</b>	<p><b>Bank reconciliation process</b></p> <p>Our audit identified a number of weaknesses in bank reconciliations undertaken by the Authority. We identified that:</p> <ul style="list-style-type: none"> <li>Our interim audit in March 2017 identified that the bank reconciliation control had not operated effectively throughout the year. Testing of the reconciliations of the 5 bank accounts showed that 4 of the accounts had not been effectively reconciled in year, with either high value erroneous reconciling items identified, or reconciliations not completed correctly.</li> <li>The year end bank reconciliation for March 2017 was not prepared until 12/05/17, and was subsequently not reviewed until 06/07/17, 2 working days before the year end audit began.</li> <li>The year end audit identified a total of 6 erroneous reconciling items contained within the bank reconciliations. These included items which had been reconciling items for some time but which had not been appropriately investigated and cleared. Of these erroneous items, 3 items resulted in adjustments to the financial statements.</li> <li>Audit queries during the final accounts audit identified that the Finance Team did not know what all reconciling items related to, and investigation was required to establish the genesis and nature of transactions once queries were raised by KPMG.</li> </ul> <p><i>(Continues overleaf)</i></p>	<p><b>Agreed</b></p> <p>To improve the bank reconciliation control process, Reigate &amp; Banstead BC will:</p> <ul style="list-style-type: none"> <li>Utilise external advice to redesign the bank reconciliation control process.</li> <li>Prepare the bank reconciliation on a monthly basis</li> </ul> <p><b>Due Date:</b> December 2017</p> <ul style="list-style-type: none"> <li>Identify, investigate and resolve discrepancies on a monthly basis</li> <li>Improve Finance Team understanding of the control process</li> </ul> <p><b>Due Date:</b> March 2018</p> <p><b>Officer responsible:</b> Head of Finance</p>

# Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
<b>Financial statements</b>			
1	2	<p><i>(Continued from overleaf)</i></p> <p><b>Bank reconciliation process</b></p> <p><i>Recommendation</i></p> <p>Regular effective reconciliations of the bank account to the general ledger are an essential internal control which enables any discrepancies with regards to cash to be identified and resolved in a timely manner. When reconciling items are identified, they should then be investigated and cleared on a monthly basis.</p> <p>We therefore recommend that management perform bank reconciliations on a monthly basis, to ensure that any discrepancies are identified and resolved in a timely manner. These bank reconciliations should be separately prepared and authorized to ensure sufficient segregation of duties, and all reconciling items should be investigated and cleared on a month by month basis.</p>	

# Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
<b>Financial statements</b>			
2	2	<p><b>Accruals and cut off of expenditure</b></p> <p>Our audit identified weaknesses in the Authority's process for accruing expenditure and ensuring that transactions are recorded in the appropriate accounting period. Accruals of expenditure are required when the invoice from the supplier is not received prior to year end. Our audit testing identified:</p> <ul style="list-style-type: none"> <li>An expenditure invoice for £457k which related to March 2017, and which was invoiced on 31 March 2017, however which was recorded as a 2017/18 transaction.</li> <li>Two accruals totalling £674k which were erroneously over accrued. These both related to a specific capital project where automatic accruals are raised, and once invoices were received for works completed, it was identified that invoices had not been matched off against the correct corresponding accruals, resulting in a residual over accrual of £673k.</li> <li>Three further creditor accruals items tested which, though appropriate to have accrued for, had a variance between the value of the accrual recorded and the amount invoiced of 16% (a variance of £23.6k out of a total recorded in the accounts of £144.7k).</li> </ul> <p>Our 2015/16 audit identified a number of smaller errors in the cut off of transactions, where items were reported in the incorrect period. In response to this, a new control procedure was introduced, whereby two members of staff would check incoming transactions in P1 of each year to ascertain which financial year transactions should be recorded in. Though the transaction giving rise to this error was part of this control procedure, it was not flagged that it was reported in the wrong financial year.</p> <p><i>Recommendation</i></p> <p>We recommend that the Authority review and revise its process for accruing expenditure. This should include ensuring that ongoing projects are managed to ensure individual invoices are matched directly against expenditure accrued for them, with a final review at year end, to ensure these are recorded accurately. Moreover, as part of this, the Authority should ensure appropriate staff training for all those involved in the cut off and accruals process, to ensure that those carrying out control procedures have sufficient expertise to identify errors and discrepancies.</p>	<p><b>Agreed</b></p> <p>The process for accruing and reviewing year end cut off expenditure will be reviewed before the 1718 year end to address the discrepancies identified. The process review and training will cover all staff with both operational and financial project management responsibilities.</p> <p><b>Due date:</b> March 2018</p> <p><b>Officer responsible:</b> Head of Finance</p>

# Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
<b>Financial statements</b>			
3	3	<p><b>Review of Council Tax reconciliations</b></p> <p>Our audit identified that in 2/5 weekly reconciliations tested of Council Tax to the general ledger, that the reconciliation was not reviewed. This raises the risk that discrepancies or errors within the reconciliation may not be detected in a sufficiently timely fashion to allow them to be rectified appropriately.</p> <p>We note that in the 2 reconciliations where there was no review, there were no reconciling items. However, the Authority's policy is for an appropriate member of staff to review and sign off reconciliation each week regardless of whether there are reconciling items or not, and we note that in other weeks when there were no reconciling items, that the reconciliations were reviewed.</p> <p><i>Recommendation</i></p> <p>We recommend that the Authority review all its Council Tax reconciliations, and reinforce to staff completing these the importance of preparing and reviewing these reconciliations in a timely fashion.</p>	<p><b>Agreed</b></p> <p>The Council will review all weekly Council Tax reconciliations, reinforcing to staff the requirement to review reconciliations weekly.</p> <p><b>Due date:</b> September 2017</p> <p><b>Officer responsible:</b> Head of Finance</p>
4	3	<p><b>Transaction processing</b></p> <p>Journals testing identified one journal for £5k which had been posted to the incorrect income account. The item related to grant income which was erroneously posted to a gain on the disposal of fixed assets. This raises the risk that further transactions may be incorrectly posted if uncertainty exists around the nature of the transaction.</p> <p><i>Recommendation</i></p> <p>We recommend that the Authority review its transactional processing procedures to ensure that where there is uncertainty over what a transaction relates to, it is investigated first to establish the nature of the item, so it can be correctly posted. Where necessary, suspense accounts could be used to record transactions whilst they are being investigated. To support this, we recommend that the Authority review the technical expertise and update technical training provided to the Finance Team.</p>	<p><b>Agreed</b></p> <p>The Council will provide Finance Team members with appropriate technical training to improve the treatment of the nature of transactions. The Finance Team will work closely with officers across the Council to identify the nature of transactions throughout the financial year.</p> <p><b>Due date:</b> March 2018</p> <p><b>Officer responsible:</b> Head of Finance</p>

# Recommendations raised and followed up

We have followed up the recommendations from the prior year's audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number superceded (repeated below):
3	1	2

#	Risk	Recommendation	Status at August 2017
<b>Financial statements</b>			
1	2	<p><b>Cut off</b></p> <p>We tested a sample of transactions from March and April 2016 bank statements to confirm that they had been posted to the correct accounting period. From an initial sample of 13 expenditure transactions, we identified that 2 items, which were received in April 2016 and had been recorded in 2016/17, actually related to 2015/16. These items were not accrued for. We undertook a further sample of 12 items, including the highest value items, and from this identified a further 2 errors, again where items recorded in 2016/17, actually related to 2015/16 and had not been accrued for at year end. The total value of these errors is £6.5k.</p> <p>From this testing we are satisfied that the total population in which any further error could occur is £1,011,157, which is immaterial. Extrapolating the 1% error rate over this population results in an extrapolated error of £12k, which is below our trivial reporting threshold. Therefore we are satisfied that the accounts are materially fairly stated, with the extrapolated error identified trivial in value. However, in response to the above, we recommend that the Authority reviews its processes for accruing for expenditure at year end, to ensure it accurately captures all such items going forward, to ensure that all transactions are recorded in the appropriate financial year.</p>	This has been re-raised as a recommendation in 2016/17, see p.19 for full details.
2	3	<p><b>Timely review of control account reconciliations</b></p> <p>Key control account reconciliations, for example monthly bank reconciliations and journals authorisation reviews, were not always prepared and reviewed in a timely manner. All such control account reconciliations ought to be prepared and reviewed within 10 days of month end, in line with the Authority's procedures. We identified instances where review took place later than this:</p> <ul style="list-style-type: none"> <li>• March 2016 bank reconciliation: reviewed on 23/06/16;</li> <li>• March 2016 journal authorisation review: reviewed on 06/07/2016; and</li> <li>• November 2015 payroll reconciliation: reviewed on 03/03/2016</li> </ul> <p>The delay in reviewing these reconciliations raises the risk that discrepancies, errors or issues identified in these reconciliations will not be identified and rectified in a timely manner. Control account reconciliations should be performed and reviewed in a timely manner to ensure any issues can be appropriately addressed. The Authority should reinforce to preparers and authorisers their procedures in this area, and if considered necessary, provide additional training or support to help facilitate this.</p>	This has been re-raised as a recommendation in 2016/17, see p.17 for full details.

# Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- Material errors by **value** are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements;
- Errors which are material by **nature** may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff; and
- Errors that are material by **context** are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

In our External Audit Plan 2016/17 we set materiality at £2.2m, which equated to approximately 2% of the Authority's gross expenditure in 2015/16. During 2016/17 expenditure fell and hence during our audit fieldwork we have used a materiality level of £2.0m, which is equivalent to approximately 2% of 2016/17 expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

## Reporting to the Executive Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Standards Committee any misstatements of lesser amounts to the extent that these are identified by our audit work. Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. *ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £100k for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Standards Committee to assist it in fulfilling its governance responsibilities.



**Unadjusted audit differences**

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit and Standards Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate.

We are pleased to report there are no unadjusted errors.

**Adjusted audit differences**

To assist the Audit and Standards Committee in fulfilling its governance responsibilities we present in the tables below a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Authority adjusted audit differences (£)					
#	Income and expenditure statement	Assets	Liabilities	Reserves	Comments
1	Cr Expenditure £674,000		Dr Short term creditors £674,000		Our audit testing identified two accruals totalling £674k, made up of one item of £646k, and a second item of £28k, which were erroneously over accrued. These both related to a specific capital project where automatic accruals are raised, and once invoices were received for works completed, it was identified that invoices had not been matched off against the correct corresponding accruals, resulting in a residual over accrual of £673k.
2	Dr Expenditure £457,000		Cr Short term creditors £457,000		Our cut off testing identified an invoice which related to 2016/17, but which was erroneously recorded in 2017/18 and hence not recorded in the draft financial statements.
3	Dr Expenditure £346,000	Cr Other land and buildings £346,000			Our testing of depreciation identified that Banstead Leisure Centre was erroneously not depreciated in 2016/17.

Adjusted audit differences (continued)

Authority adjusted audit differences (£'000)					
#	Income and expenditure statement	Assets	Liabilities	Reserves	Comments
4		Dr Other land and buildings £1 Cr Cash £127,500 Cr Cash £510,000		Dr Revaluation reserve £127,499 Cr Revaluation reserve £127,499 Dr Capital receipts reserve £127,500 Cr Capital adjustment account £1 Dr Capital receipts reserve £510,000	The Authority disposed of land at Marbles Pond in year for £1.25m. Of this total, £127,500 was received as a deposit in October 2016; £510,000 was received upon completion in March 2017, and the remaining £637,500 will be received in March 2018 as deferred consideration.  Prior to disposal, this land was recorded in the Fixed Assets Register at £1.  However, only partial entries were made for this item in the draft financial statements. The adjustments here therefore removes the initial entries made, so that the correct entries can be made in full for this transaction (which are detailed at adjustment number 5 below).
5	Cr Income – gain on disposal of non current assets £1,274,999	Dr Cash £637,500 Dr Short term debtors £637,500 Cr Other land and buildings £1			This adjustment recognizes the full disposal of land at Marbles Pond, the corresponding gain on the disposal, and the debtor outstanding for the final installment of the sale price due to the Council.
				Dr General fund £1,275,000 Cr Capital receipts reserve £637,500 Cr Deferred capital receipts reserve £637,500	This adjustment recognizes the transfer into capital reserves for the sale price of the Marbles Pond asset, so that the sale proceeds are ringfenced for future capital expenditure.

Adjusted audit differences (continued)

Authority adjusted audit differences (£'000)					
#	Income and expenditure statement	Assets	Liabilities	Reserves	Comments
5 (cont)				Dr Capital adjustment account £1  Cr General Fund £1	This adjustment reflects the removal of the net book value of the Marbles Pond asset and the neutralization on the General Fund.
6	Dr Income £324,000  Cr Expenditure £324,000				Our testing identified £324k of income and expenditure relating to a s106 scheme for which the Authority is agent in the agreement, as monies received are to be paid directly on to Surrey County Council. Therefore the Authority should not have recorded the income and expenditure for this item within their financial statements.
7		Cr Short term investments £8,000,000  Dr Long term investments £8,000,000			Our testing of investments identified that £8,000k of investments were erroneously recorded as short term investments. However, they matured more than 12 months after the balance sheet date and hence should be recorded as long term investments.
8	Dr Expenditure £395,000  Cr Income £395,000	Cr Cash £395,000  Dr Short term debtors £395,000			Testing of the year end bank reconciliation identified a reconciling item whereby a payment of £395k made to Surrey County Council had not been recorded on the general ledger. This was because the Authority did not know what this payment related to, and believes this money will be refunded back to them. As a result, this item was not recorded in the financial statements. The adjustments here reflect recording of the original cash and expenditure transactions, and the recognition of corresponding income and debtor transactions to reflect that the Authority believes this money will be refunded to them.

Adjusted audit differences (continued)

Authority adjusted audit differences (£)					
#	Income and expenditure statement	Assets	Liabilities	Reserves	Comments
9	Dr Expenditure £4,000	Cr Cash £13,000	Dr Short term creditors £9,000		Testing of the year end bank reconciliation identified a reconciling item of £13k. Of this, £9k related to credit card payments and bank charges which had been recorded as a year end creditor, when the cash payment had already been made. £4k of this related to items which had erroneously not been recorded on the general ledger, hence were not recorded in the draft financial statements.
10	Dr Expenditure £206,000	Cr Cash £206,000			This relates to a payment made to DCLG which was erroneously not recorded on the general ledger, hence was not recorded in the draft financial statements.

Authority adjusted audit differences (£'000)	
#	Disclosure
11	In Note 26.3 Operating Leases, the present value of minimum leases payments for operating leases is understated by £1,554,000 split across the three time periods. In the draft financial statements the total is recorded as £72,968,000, however this should correctly be £74,552,000.
12	In Note 27.1 Financial Instruments, the total of loans and receivables are overstated by £2,936,000. In the draft financial statements this is recorded as £55,057,000, however audit testing identified that this should correctly be £52,121,000. Of this, £8,000,000 should be recorded as non current loans and receivables, and £44,121,000 should be recorded as current loans and receivables.
13	In Note 27.1 Financial Instruments, the £3,002,000 of financial liabilities should not be recorded as borrowings, but rather should be recorded as a separate line under the "loans and receivables" section of this note. This is because they represent the investment in the Authority's subsidiaries hence are investments to the Authority, rather than borrowings.
14	In Note 25 Construction Contracts, the draft financial statements record the construction contract expenditure total of £3,700,000 for the Merstham Regeneration scheme. However, audit testing identified that this figure should be £3,200,000, hence the draft accounts disclosure is overstated by £500,000.

This appendix communicates all significant facts and matters that bear on KPMG LLP's independence and objectivity and informs you of the requirements of *ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance*.

## Integrity, objectivity and independence

We are required to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and audit team. We have considered the fees paid to us by the Authority for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

## General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies all KPMG LLP audit partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings. Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews. We would be happy to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed.

## Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit. ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff;
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements;
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Authority's financial statements;
- The potential effect on the accounts of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Authority's financial statements;
- Material uncertainties related to events and conditions that may cast significant doubt on the Authority's ability to continue as a going concern;
- Disagreements with Management about matters that, individually or in aggregate, could be significant to the Authority's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter;
- Expected modifications to the auditor's report;

- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management; and
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at Audit and Standards Committees, commentary and reporting and, in the case of uncorrected misstatements, through our request for management representations.

### Auditor declaration

In relation to the audit of the financial statements of Reigate and Banstead Borough Council for the financial year ending 31 March 2017 we confirm that there were no relationships between KPMG LLP and Reigate and Banstead Borough Council, their directors and senior management and their affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We summarise below the non-audit services that we have provided, the fee, the potential threats to auditor independence and the associated safeguards in place.

Description of non audit services	2016-17 fees for Reigate and Banstead Borough Council	Potential threat to auditor independence	Associated safeguards in place
Housing Benefits grant certification	£12,079 excluding VAT	Audit of the annual Housing Benefits return. This is a standard return for which an agreed upon set of procedures is completed. There is no impact on the financial statements audit.	None required.
Tax advisory services	£11,100 excluding VAT	Of this total, £2,600 was for the provision of a tax helpline; £1,500 was in relation to VAT advice provided for a property acquisition, and £7,000 was in relation to an HMRC appeal with regards to off street parking.	See overleaf for potential threats and safeguards in place.
<b>Total fees</b>	£23,179 excluding VAT		
Total fees as a % of the external audit fees	47%		

In addition, during 2016/17 KPMG was engaged by Mole Valley District Council to deliver a tax briefing session at Mole Valley District Council. Reigate and Banstead Borough Council was invited to attend by Mole Valley, along with a number of other neighbouring authorities, for which Mole Valley charged the Authority £100 excluding VAT. We therefore do not consider this a threat to auditor independence, but have included this here for completeness.

*Continues overleaf*

## Auditor declaration *(continued)*

The principal threats to an auditor's objectivity and independence are self interest; self review; acting as management; acting as advocate; familiarity; and intimidation.

During 2016-17 the Authority engaged KPMG LLP to provide tax advisory services totalling £11,100 excluding VAT. Below we have assessed the potential threats to independence that the service provided may pose.

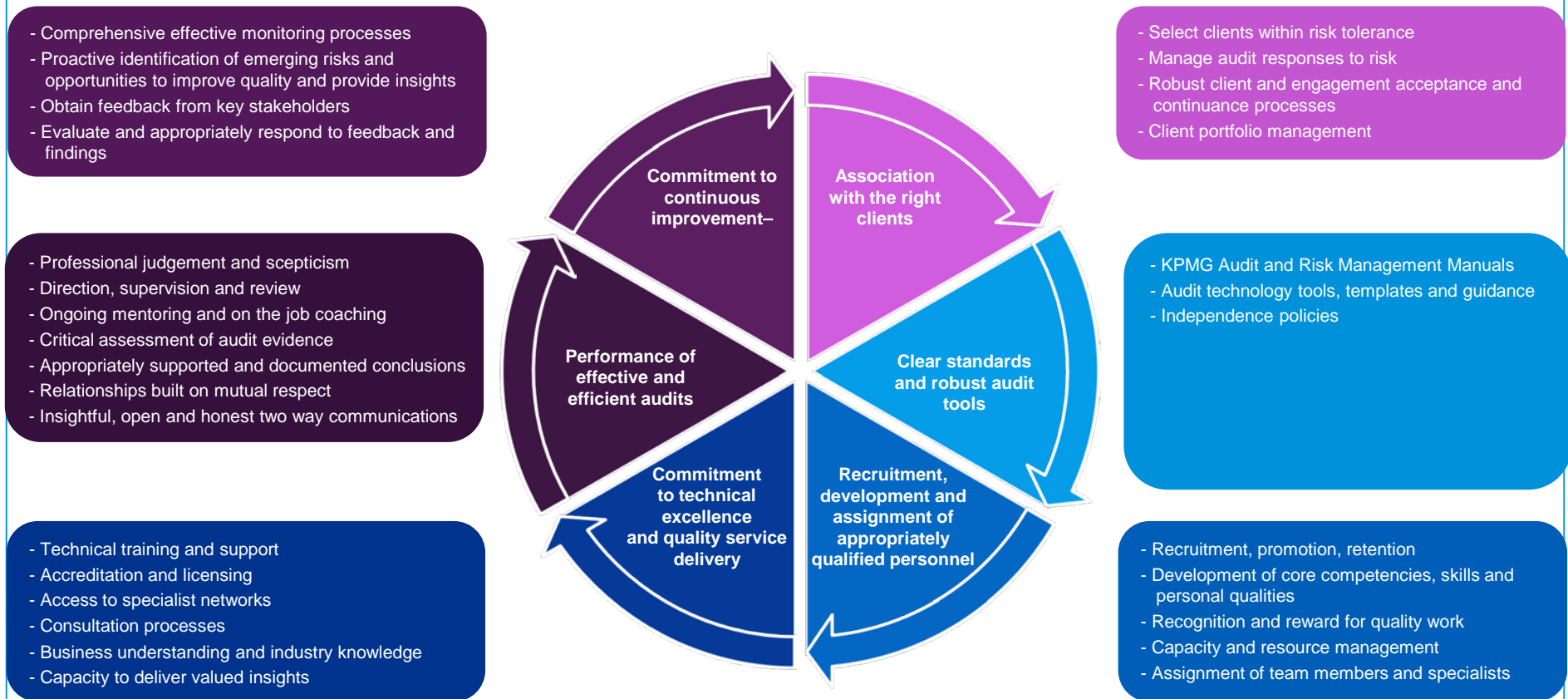
## Detailed consideration of independence threats and related responses from the audit team to potential threats

- **Self-interest:** The fee basis does not give rise to financial or other interests which might cause the auditors of the Authority to be reluctant to take actions that would be adverse to the interests of the audit firm or any individual in a position to influence the conduct or outcome of the audit.
- **Self-review:** The scope of work completed by the KPMG LLP tax team does not give rise to a risk that the results of the work would be material to the financial statements, and does not constitute judgements critical to the preparation of the financial statements.
- **Management:** Partners and employees of the audit firm are prohibited from taking decisions on behalf of the management of the audited entity. Under no circumstances would KPMG undertake any management or decision making roles, for or on behalf of the Authority.
- **Advocacy:** The KPMG tax team's work does not give rise to an advocacy risk as they do not hold any representation role and was not supporting any positions taken by management in an adversarial context (for example, by acting as a legal advocate for the Authority in litigation or a regulatory investigation).
- **Familiarity:** The KPMG tax team are separate to the KPMG audit team and no members of the tax team involved in this work will have any role in the external audit. The extent of work is small in fee and time compared to the external audit and therefore this is not considered to give rise to a risk of over-familiarity with the Authority.
- **Intimidation:** The audit team working with the Authority have not had and do not anticipate having an intimidation threat arising from aggressive and dominating individuals within the Authority we audit. The work of the KPMG tax team does not change this.

We have considered the ratio of audit to non-audit fees and as required by the APB Ethical Standards. The principal threat which arises from fees from non-audit services which are large in absolute terms relative to the audit fee is the perception of self-interest and advocacy. In this regard, we do not consider that the above ratio creates such a self-interest or advocacy threat since the absolute level of non-audit fees is not significant to our firm as a whole and neither the audit partner nor members of the audit team are incentivised on, or rewarded in respect of, the provision of non-audit services to you. We believe that the question of perception is best addressed through appropriate disclosure as to use of the auditor for the provision of non-audit services in the Authority's annual report and accounts.

# Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework







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Joanne Lees  
Director  
KPMG LLP  
15 Canada Square  
London  
E14 5GL



14 September 2017

Dear Joanne

This representation letter is provided in connection with your audit of the financial statements of Reigate and Banstead Borough Council (“the Authority”), for the year ended 31 March 2017, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority and the Group as at 31 March 2017 and of the Authority’s and the Group’s expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

These financial statements comprise the Expenditure and Funding Analysis, the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes (including the Expenditure and Funding Analysis).

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

#### **Financial statements**

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
  - i. give a true and fair view of the financial position of the Authority and the Group as at 31 March 2017 and of the Authority’s and the Group’s expenditure and income for the year then ended; and
  - ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

The financial statements have been prepared on a going concern basis.

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2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

#### Information provided

5. The Authority has provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Authority for the purpose of the audit; and
  - unrestricted access to persons within the Authority and the Group from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority confirms the following:
  - i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Authority has disclosed to you all information in relation to:
  - a) Fraud or suspected fraud that it is aware of and that affects the Authority and the Group and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements; and
  - b) allegations of fraud, or suspected fraud, affecting the Authority's and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and

detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

11. The Authority confirms that:
  - a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's and the Group's ability to continue as a going concern as required to provide a true and fair view.
  - b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority and the Group to continue as a going concern.
12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) Employee Benefits.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
  - statutory, contractual or implicit in the employer's actions;
  - arise in the UK and the Republic of Ireland or overseas;
  - funded or unfunded; and
  - approved or unapproved,

have been identified and properly accounted for; and

- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

13. The Authority has included in its financial statements land and buildings of £109.4m. The Authority underwent a valuation of its land and buildings as at 31

December 2016. The Authority confirms it is satisfied that the valuation of land and buildings included within the 2016/17 financial statements is appropriate and adequately reflects the factors that may impact on it.

14. The Authority has included in its financial statements investment properties of £47.1m. The Authority confirms it is satisfied that the valuation of investment properties included on the balance sheet as at 31 March 2017 is appropriate.
15. The Local Government Pension Scheme (LGPS) underwent a triennial valuation as at 31 March 2016. The Authority has included in its financial statements pension liabilities of £70.5m. The Authority confirms it is satisfied that the value of the pension liability recorded in the financial statements are appropriate and adequately reflects the factors that may impact on it.
16. The Executive confirms that it is satisfied that expenditure transactions are recorded in the appropriate accounts period and accrued for where appropriate.
17. The Authority is engaged in a number of agreements under the terms of Section 106 of the Town and Country Planning Act 1990 ("s106 arrangements"), with total receipts of £5.3m in 2016/17. Of these, the Authority has reported in its financial statements £5.0m, relating to schemes where the Authority considers itself to be the principle in the agreement. The Authority confirms it is satisfied it has appropriately identified and accounted for these schemes in 2016/17.

This letter was tabled and agreed at the meeting of the Executive Committee on 14 September 2017.

Yours faithfully,

Councillor Victor Broad, Leader  
Jocelyn Convey, Head of Finance

**Appendix to the Authority Representation Letter of Reigate and Banstead Borough Council: Definitions**

**Financial Statements**

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

**Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

## Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

## Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

## Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

## Related Party and Related Party Transaction

### Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
  - i. has control or joint control over the reporting entity;
  - ii. has significant influence over the reporting entity; or
  - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
  - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - ii. One entity is an associate or joint venture of the other entity (or an



- associate or joint venture of a member of a group of which the other entity is a member).
- iii. Both entities are joint ventures of the same third party.
  - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the
  - vi. reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity. The entity is controlled, or jointly controlled by a person identified in (a).
  - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

**Related party transaction:**

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.